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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000338

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EB, NEA/ARP

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TAGS: [FAIR](#) [ECON](#) [REGION](#) [ECTRD](#) [OFFICIALS](#) [BA](#)

SUBJECT: FINANCE MINISTER SEEKS TO REVAMP, STREAMLINE GULF AIR OPERATIONS

REF: STATE

Classified By: Ambassador William T. Monroe, reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) Finance Minister Shaikh Ahmed bin Mohammed Al Khalifa told Ambassador Monroe April 5 that under new Chief Executive Officer Andre Dose, Gulf Air's newly designed network plan was practically complete. The long-term focus of the carrier would emphasize narrow-body Airbus 320s or Boeing 737s. He highlighted plans to reduce staff and review the airline's books in a bid to stem losses and also discussed the carrier's maintenance problems. However, he resisted parliamentary calls for a formal investigation of Gulf Air and anticipated Bahrain's assumption of 30 percent of Oman's interest for a total of an 80 percent stake in the carrier.
End Summary.

NEW FLEET MIX OUTLINED

¶2. (C) Finance Minister Shaikh Ahmed bin Mohammed Al Khalifa, as CEO of newly-formed holding company Mumtalakat, whose holdings include Gulf Air, told Ambassador Monroe and EconOff April 5 that he had taken personal charge of overseeing the overhead and restructuring of Gulf Air. He said that Andre Dose, newly-appointed Gulf Air Chief Executive Officer, had been officially on the job for just 5 days, but had actually been hard at work for the last six weeks. As a result, a newly-designed network plan is practically complete. Under the new plan, there may be no place for the carrier's Boeing 767s, unless Gulf Air chooses to set up a cargo carrier service.

¶3. (C) Shaikh Ahmed said that an appropriate aircraft mix for Gulf Air would include either Airbus 320s and 340s or Boeing 737s and 787s (provided they could be leased quickly, since he understood the Boeing 787s to be unavailable for purchase until 2014). He suggested that it might be useful for Boeing to approach Dose directly with proposals. Shaikh Ahmed added that Gulf Air's emphasis would be on leasing in the near-term, adding that conditions favored leasing over purchasing during the current strong aircraft market. Either the Airbus 320 or Boeing 737 model would fit Gulf Air's developing need for high-frequency regional traffic. "The long-term emphasis for the carrier is narrow-body instead of wide-body."

TRIMMING LOSSES

¶4. (C) Shaikh Ahmed noted that five Gulf Air executives had been dismissed and added that this would be followed by a cut of some 1000 workers, most of them non-Bahraini. He talked about redundancy in such areas as flight attendants, where absenteeism is unusually high and numbers could be easily reduced. Referring to Gulf Air's current million dollar a day losses he added, "We can't go on like this. This is the first time since the 1970s that we're taking a close look at the airline"

¶5. (C) Shaikh Ahmed said Gulf Air had contracted with Kroll to review Gulf Air's books "with a fine-toothed comb" to spot accounting irregularities pointing to inefficiency or fraud. He held out the possibility of prosecuting company officials where evidence indicated criminal activity.

CALLS FOR PARLIAMENTARY INVESTIGATIONS REBUFFED

¶6. (C) Referring to calls by some Bahraini parliamentarians for formal investigations into Gulf Air's finances, Shaikh Ahmed told the Ambassador, "I said if you start (investigations) you can take it." He believed this would deter parliamentarians from pursuing an investigation, since they would likely wish to avoid shouldering responsibility to solve Gulf Air's problems. "I told them I'm the doctor, you are the police. Let me cure the patient."

¶7. (C) Shaikh Ahmed lamented the lack of maintenance of Gulf Air's planes. He raised no question regarding the aircraft's fitness to fly but noted that "inside the aircraft are in very bad shape". (Note: In January, Gulf Air removed its

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nine Boeing 767s from service when a maintenance check revealed a crack in the body of one plane. Three of the 767s were returned to service in March. (End Note.) He said maintenance had suffered when cost-cutting efforts had led former CEO James Hogan to order a revised maintenance program that provided inadequate aircraft maintenance scheduling.

EIGHTY PERCENT

¶8. (C) Shaikh Ahmed confirmed that Gulf Air is set to acquire 30 percent of Oman's share of the carrier, raising it's stake to 80 percent. However, he said the arrangement could not be finalized until he received Oman's written agreement. He suspected that Omani officials were dragging their feet due to hesitancy at losing key operations such as maintenance (and associated jobs). But Shaikh Ahmed asserted that the Omanis have nothing to fear. "We're not going to drop Oman over night, except for the routes that are really losing money." He expressed the desire to finalize the agreement quickly before making a needed infusion of money into the airline.

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